

HOW THEY DID IT:

Supplier

TRUST at GM

In 2014, General Motors launched a new strategic initiative to improve supplier relationships and drive financial performance.

Nearly three years later, Strategic Supplier Engagement is delivering solid results.

BY BOB TREBILCOCK,
EDITORIAL DIRECTOR,
SUPPLY CHAIN
MANAGEMENT REVIEW



In 2016, General Motors achieved two major milestones: The Bolt—Chevrolet’s entrant into the market for all electric vehicles—was named Motor Trend’s Car Of The Year after it was rated at 238 miles on a charge, the most for any electric vehicle currently on the market. At the same time, GM improved 11% and moved up to fourth place on the Supplier Working Relations Index, a highly respected annual survey that measures supplier trust in the automotive industry. It was one of the largest single year gains in the history of the index. John Henke, publisher of the survey since its inception more than 20 years ago, noted at the time that “only General Motors—a historical laggard—showed significant improvement in this year’s study” and that “only GM’s purchasing VP and buyers appear to be working together to build trusting relations.” *

GM believes that both achievements are the fruits of Strategic Supplier Engagement—or SSE—an initiative the automaker launched in 2014 to improve its financial performance and the performance of its vehicles: The Bolt’s mileage rating, for instance, is the result of a strategic relationship with LG Electronics, the supplier of the propulsion technology behind the Bolt EV. That type of innovation—and strategic relationship—were both lacking at GM for years before it began to see improvement in the index.

This is the story of how they did it.

From cost cutting to cost sharing

With Strategic Supplier Engagement, GM’s goal was to build a foundation of trust and transparency. Yet, when it comes to its suppliers, adversarial rather than strategic was likely the first word that came to mind in the automotive industry prior to its introduction. Despite its storied past, GM perennially came up short on Henke’s Supplier Working Relations Index, often battling for last place and typically finishing behind its U.S. and Japanese competitors.

Bruised supplier relationships and mistrust can be traced as far back as the 1990s, when GM brought in Ignacio Lopez as its purchasing chief with a mandate to cut costs. While he stayed only briefly in the position, reports at the time credited Lopez with saving GM more than \$1 billion in purchasing during his one full year on the job. Yet those gains were the result of tearing up existing contracts and extracting cost reductions while simultaneously demanding improved quality and performance from suppliers. It was a difficult time to be a GM supplier.

That said, there were gains from the Lopez era, according to Beverly Gaskin, executive director, propulsion

systems for global purchasing and supply chain (GPSC). “We had a global sourcing table, a common approach and a consistency of purpose,” recalls Gaskin, whose team worked with LG on the development of the subsystem for the Bolt.

Over time, that common purpose fractured. Each subsystem management team had its own cost centers and was focused on that team’s material targets. There was little recognition of the impact of one team’s strategy on suppliers that were shared by other teams. The result was that every group had a different approach to suppliers—including relationships. Suppliers experienced inconsistent behavior and had limited exposure and access to top leadership.

The consequences of that approach were evident in Henke’s index, especially in the 2002 to 2006 timeframe. The sense within global purchasing was that GM was far from the customer of choice when it came to the sharing of new, potentially game-changing technologies. There was also a recognition that the game had changed. As with most heavy manufacturers, OEMs like GM are assemblers that rely more than ever on their suppliers. “Seventy percent of the cost of manufacturing an automobile is purchased,” says Jeff Morrison, executive director of strategic planning and development, GPSC. What’s more, car companies today compete on technological innovations—car buyers no longer lift up the hood to check out the engine, but are swayed by the bells and whistles on the dash. “To be successful, we need our suppliers’ A teams. Becoming the customer of choice is increasingly an imperative,” Morrison says. The question was how to create an alignment of purpose between GM and its suppliers.

By 2010, the recovery was coming faster than anticipated.

GM realized how important suppliers were to its success and that it needed to improve how they worked together. One example of this was the change made to synchronize its purchasing and engineering organizations so they could be better strategic partners to GM suppliers. The

“The idea was simple, a supplier could now see the areas where they were improving or not, and if they were not improving they could talk specifically about an action plan to reverse the trend.”

—Beverly Gaskin, executive director, propulsion systems for global purchasing and supply chain (GPSC)

not adversarial so that suppliers wanted to do business with GM,” says Gaskin. Lastly, there was pressure from the board, which included members who believed strongly in supplier engagement. “There was a sense that we could no longer battle for last place,” Gaskin adds.

Toward engagement

The release of the 2013 supplier index, in which GM again scored poorly, was another wake-up call. Gaskin, Kim Brycz, the executive director for global product purchasing, and Matt Joshua the executive director who over sees procurement of electrical systems, met to review GM’s approach to supplier relationship management, including its score cards and communication. The conclusion: The scorecards that had been used for years weren’t informative, transparent or bi-directional. Suppliers knew how they were scored, but they couldn’t get answers as to why they had come up short in some areas; nor could they report back to GM on its performance as

a customer. That became the starting point for Strategic Supplier Engagement (SSE).

Over the course of 2013, a team of GM purchasing executives developed a new supplier engagement tool that would eventually be rolled out to some 400 suppliers that serviced over 100 commodity teams and their buyers worldwide. The goal was to create a tool that would help build a foundation of “transparency and trust” with suppliers. It would measure business performance and how well the suppliers met the automaker’s cultural priorities.

Business Performance built on a foundation of “transparency.” It measured and provided feedback on a supplier’s target and actual performance across four key areas: Quality, Launch, Material Cost and Supply Chain. Scores ranged from 1 to 5, with 5 being the best. Scores were also color-coded red, yellow or green; the best performers were in the green zone.

Cultural Performance was built on a foundation of “trust.” That component of the scorecard measured Total Enterprise Cost, Transparency, Communication & Responsiveness, and Innovation and Engineering. The theory was that the combination of business performance and cultural alignment would set the stage for the new relationship model. Similar to Business Performance, a supplier received a score of from 1 to 5 across the four areas of Cultural Performance. The score was tabulated by one individual but included input from a variety of sources, such as engineering, quality and procurement. If a low score was given, the specific reason and contact name had to be entered. This reinforced transparency and provided the opportunity for a dialogue on the feedback. In all cases, suppliers could see on the dashboard if they were in a red, yellow or green zone for individual categories as well as composite scores.

During the development stage, which included several iterations, GM reached out to its supplier council for advice and conducted pilots with small groups of suppliers to work out the bugs. The new scorecard went live in January 2014 (Figure 1). While simple, the supplier dashboard gave suppliers a view of their performance and the ability to click on a box to review specific quality or shipping issues that they needed to address. Hence, transparency.

Gaskin and Morrison concede that suppliers were initially skeptical as to whether this was a new way of doing business or the flavor of the month. “I’m sure there was a

FIGURE 1

Supplier dashboard



Business metrics report date: 2014-03-31

Cultural report date: 2014-03-31

Source: General Motors

concern about how we would use the scores,” says Morrison. However, once suppliers realized that buyers weren’t using the tool as a club, the response was positive. “Suppliers told us they may not agree with our score, but they now had transparency into what was important to GM and how they could better align with our priorities,” says Gaskin.

Later that year, GM introduced supplier trend charts that measured performance over a six-month period (Figure 2). “The idea was simple,” says Gaskin. “A supplier could now see the areas where they were improving or not, and if they were not improving they could talk specifically about an action plan to reverse the trend.”

As it exists today, performance, or operational, metrics are updated once a month. Initially updated every six months, Cultural Priorities are now updated once a year.

The feedback loop

Step 2 in the SSE plan was introduced in 2015. Known as SSE 360°, it provides the feedback loop that allows suppliers to tell GM how it is doing as a customer. After all, the objective was to improve trust and move toward becoming the automotive supply base’s customer of choice. “We

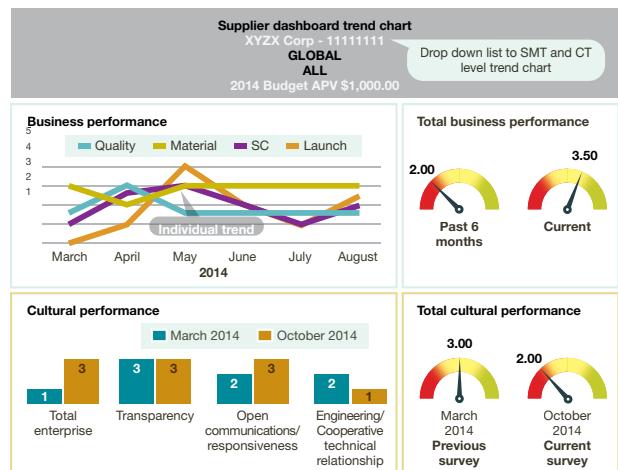
wanted quantitative and objective data across a number of areas by commodity team,” says Morrison. Similar to the Cultural Priorities dashboard for suppliers, the automaker wanted actionable information so that it could understand which of its teams was over-performing or under-performing. Last, in the messaging, it was important that suppliers knew that there would be no retaliation for poor scores.

The SSE 360° survey asks suppliers to answer a series of questions related to the same four Cultural Priorities (Total Enterprise Cost; Transparency; Communication & Responsiveness; and Innovation & Engineering) as GM teams are asked about suppliers. They then assign a score of from 1 to 5 to each area as well as an overall Cultural Priority Score. Just as a GM employee puts their name to a supplier’s composite score, a supplier representative signs off on this score. The feedback loop also includes a chart that compares suppliers’ SSE 360° scores to GM’s SSE score of suppliers.

Before the first survey was completed in August of 2015, there was anxiety from both the GM and supplier communities. Suppliers were concerned about providing what could potentially be negative feedback about the teams with whom they worked; commodity teams were concerned that negative feedback would reflect on their performance. “We already knew we were near the bottom of the supplier index, so the collective GPSC team was committed to face the issues and address them,” says Gaskin. And, adds Morrison, if you’re a commodity buyer and the survey results are bad, it might

FIGURE 2

Supplier trend charts



Source: General Motors

be time to look in the mirror and make a change. “If you look at the questions on the survey, a lot of them are about behaviors we want to reinforce going forward around openness, innovation and transparency,” he says. “To score

“Suppliers could have downgraded us because of the work we did to take cost out of the system, but we believe we took the cost out in the right way.” —Beverly Gaskin

well, you should be doing these things.”

As it turned out, the first supplier feedback results were within 10% of GM’s survey of its suppliers. “What it showed is that we were both more aligned than we may have thought,” Gaskin says. “However, we weren’t having a dialogue and addressing our gaps.”

Taken together, the SSE performance and cultural performance scores along with the SSE 360° feedback, created the platform for that dialogue going forward.

Top supplier framework

One of the last steps in GM’s journey to Strategic Supplier Engagement was the introduction in 2016 of a framework for working with GM’s Top 36 suppliers—those that were deemed critical to the automaker’s success and survival.

The Top 36 management framework—later expanded to the Top 50 suppliers—was designed to provide one touch to GM by assigning a senior executive champion to each of the critical suppliers. “We were getting rich data from the SSE and SSE 360°,” says Gaskin. “The questions were: Now that we have it, what are we going to do with this data and how are we going to manage it?” The supplier champion was tasked with working with a counterpart at the supplier organization to use the information being updated monthly to the benefit of both organizations.

The expectation is that the executive champions will meet regularly—or, in Gaskin’s case, weekly with her counterpart at Bosch, the supplier she champions. The meetings are structured around a one-page executive summary of the three or four items for that meeting. Those typically include a joint review of the SSE scorecard; a business overview, including opportunities the supplier has

recently won and lost; and any business or cultural issues that need to be addressed. “For a supplier like Bosch, that supplies numerous commodity teams, having one touch point adds consistency and oversight to the relationship,” Morrison says. “The champion, enabled by data, can be an advocate if the supplier is struggling with a commodity or has a conflict with a purchasing team. Similarly, we might encourage a supplier to grow their business with us in several areas, suggest a fix in another and encourage them to exit something else.”

Part of the role of a champion is to help get their supplier into the green zone in the chart through tough love or enthusiastic encouragement. “They’re entrusting us to represent them in critical conversations at GM just as I count on my counterpart at Bosch to make sure that we’re seeing innovation and protecting the high revenue products we purchase from them,” Gaskin says. “Similarly, if I know they have an issue that is important to their business, I talk to our people about what we can do to keep them healthy.”

There have been further refinements to the process, including two new awards for companies that are exceeding expectations. One is the Overdrive Award created to recognize companies that go above and beyond the call of duty, including excellence in areas such as sustainability, commitment and leadership in cultural or business change. A second award is for Innovation, which LG Chem and LG Electronics both won for their work on the breakthrough battery technology used on the Bolt. LG Electronics also designed and developed the infotainment system in the Bolt.

Even with a commitment to do things differently, supplier engagement did not happen overnight. As Gaskin and Morrison note, GPSC is a large organization, with over 100 commodity teams and team members around the world who had to be brought on board. “Remember that for many procurement professionals, boxing gloves got them to where they are,” says Morrison. “It’s not easy to tell them to put them away.”

Yet two years into a new way of doing business, GM believes that SSE is delivering tangible results. For one, when this article was being researched, the company had experienced more than eight quarters of improving margins, thanks to the supply base helping the company to get its cost structure under control. During that same period, supplier trust scores moved up and not down.

Why supplier loyalty pays

BY JOE SANDOR

We tend to build relationships

with suppliers cautiously and can take suppliers for granted. Lasting relationships seem to develop only after years of arms-length dealings. Even then, relationships are regarded as tenuous and temporary, and are more likely to develop between individuals who have discovered they can leverage each other's benefits through close cooperation than whole organizations or departments.

Organizational commitment to strengthening supplier relations is relatively rare. In contrast, marketing and human resources have spent decades driving improvement in customer and employee satisfaction and refining measurements and metrics to track their performance. Recently, however, supplier loyalty has been getting attention. Current supply management literature around supplier relationship management (SRM) and recent trend studies have shown that some organizations seem to have a better cooperative culture that accordingly earns sustainable supply advantage. Part of the effort to improve supplier loyalty requires a solid understanding of current supplier perceptions. This is where I believe GM's Strategic Supplier Engagement/360° Methodology comes in.

For the past couple of decades, business pundits have linked success to customer focus and employee satisfaction. Indeed, every firm aspires to be both the supplier and employer of choice. Pleasing customers and attracting and

TABLE 1

Hypothetical behavioral outcomes from a supplier's motivational viewpoint

Outcome area	Traditional power-buyer	Collaborative-buyer
Information sharing	As little as possible and biased/finagled toward "proving" how meager my margins are	Open and transparent—won't be used as a negotiating club but rather a tool to advance continuous improvement
Focus	Price, bidding, auctions, unilateral demands, risk avoidance, legal agreements and compliance	TCO, cost models, joint problem solving, shared risks, process enhancement and innovation
Waste	Move	Reduce or eliminate
Tenure	Potentially very short	Expected to be very long
Queuing priority	No incentive but make-believe	High incentive
Intellectual property	Shopped	Protected
Technical support	As little as absolutely needed	Routinely use "A" team
Risks	Passed	Shared
Benefits	Taken	Shared

Source: Joe Sandor

retaining the best employees remain critical components of success. Arguably, in today's globally competitive markets, loyal customers and employees are even more important. But, there are three loyalty legs to the business success stool: customers, employees and suppliers. And yet, the supplier leg is not only neglected, it is both the fattest and, perhaps, offers the best opportunity for overall business improvement because that's where the money is. In GM's case, over 70% of its cost of goods come from purchases of goods and services. The huge value of purchases means a far greater reliance on suppliers. And, the dependence on suppliers has been growing fast. Clearly, only those customers who earn preferential treatment from their suppliers will thrive.

Unfortunately, most buyers live in Lake Wobegon. They genuinely believe that they are their suppliers' customer

of choice. But, only 5% of all customers regularly receive preferential treatment from their suppliers, according to a recent Procurement Strategy Council survey of hundreds of key account managers at Fortune 2000 companies. There is ample evidence that improving your working relations with your suppliers increases supplier driven innovation and reduces TCO. The distinction between collaborative versus traditional buyer strategies is shown in the chart below. As you can see from this article, GM is moving from the center column to the right-hand column and aims to be in this exclusive 5%.

Joe Sandor is the Hoagland-Metzler Professor of Purchasing and Supply Management at the Eli Broad School of Business and the The Eli Broad Graduate School of Management at Michigan State University. He can be reached at sandor@broad.msu.edu.

"Suppliers could have downgraded us because of the work we did to take cost out of the system, but we believe we took the cost out in the right way," says Gaskin. And, GM believes it is now getting access to cutting-edge innovation as a customer of choice.

There has been a benefit to suppliers as well: 80% of the Top 50 grew the amount of business they are doing with GM. "We've made supplier engagement an ongoing

process," says Morrison. "There are performance expectations, there is a champion to guide you and how to grow your business with GM is clearer. At the end of the day, suppliers want business, and GM wants competitive, defect-free components that represent leading-edge technology and innovation." ☺☺

*You can read more about supplier trust in "Lost supplier trust" in the May/June 2014 issue of SCMR.